

Transportation Transactions in the U.S. Balance of Payments

INTERNATIONAL transportation transactions constitute one of the major components of the balance of international payments of the United States. In 1962 U.S. credits (receipts) on the transportation account amounted to \$1.75 billion or about 6 percent of all exports of goods and services. Correspondingly, U.S. debits (payments) resulting from all forms of international transportation were \$2.06 billion or more than 8 percent of all goods and services imported. This excess of debits over credits, amounting to \$306 million, was the fourth consecutive net debit balance in nondomestic transportation since 1958. Preliminary data for the first half of 1963 indicate a continuation of this condition.

Since United States merchandise exports and imports are valued f.o.b., that is, including ship loading fees but excluding transportation and related charges, these costs are separately valued and recorded in the transportation account of the U.S. balance of payments. The major elements comprising this account are freight charges, passenger fares, and expenditures in port.

Freight on imports is ultimately paid by the American importer either directly to the carrier, or via the foreign exporter whenever the purchase is made on c.i.f. (cost plus insurance and freight charges) terms. Shipping charges for the carriage of American imports are therefore debits in the balance of international payments, provided that the carrier is a foreign operator. If the carrier which transports the imports is a domestic concern the payment for freight is not recorded, since only transactions between U.S. and foreign residents enter into the balance of payments. Similarly, freight on U.S. exports is ultimately paid by the importing country regardless of whether the purchase was made on f.o.b. or c.i.f. terms. When U.S. exports are transported on American carriers the freight earned is a credit in the U.S. balance of payments.

If, however, the exports are shipped via a foreign carrier the freight cost would not be included in the U.S. balance of payments, since the transaction is between foreign residents.

Other elements of freight transportation costs include payments to foreign airlines and receipts of domestic air carriers for the carriage of goods, receipts of U.S. pipelines in Canada, credits resulting from intransit Canadian goods using U.S. rail lines, and credits on intransit foreign goods moving by U.S. railroads.

Passenger fares are also included in this account and comprise receipts by American airlines for the transportation of foreign passengers to and from the United States and for the transportation of foreign residents between foreign countries. United States debits include

the reverse transaction, fare payments by U.S. residents to foreign transportation companies.

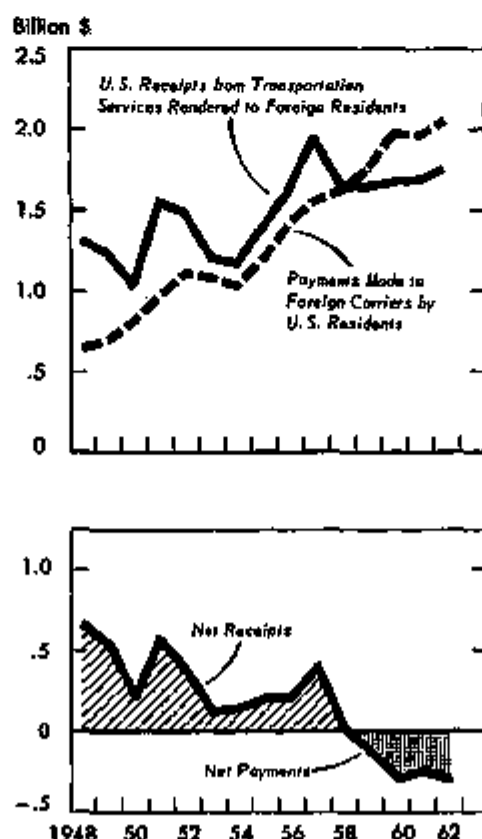
Operating costs or expenses in port are another important part of transportation transactions. Port expenditure receipts include disbursements by foreign sea and air carriers in the United States for fuel, port fees, provisions, maintenance, advertising, stevedoring and other wages paid to personnel in the United States. Similar payments are made abroad by U.S. carriers in foreign ports.

Postwar changes in ocean transportation

Up to a few years ago the substantial loss of merchant marine tonnage by the principal maritime nations during World War II at a time when U.S. tonnage was undergoing a fourfold expansion; increased international trade during the postwar reconstruction stage; and the subsequent world economic expansion all had the effect of placing American transportation services at a premium. From 1940 through 1958 the United States had a net credit balance in the transportation account of its balance of payments. Prior to that, in every year from 1922 to 1939, United States debits exceeded credits on transportation services. During the 1950's, however, most merchant marine countries gradually replaced their depleted fleets with new, larger and more efficient vessels, which offered stronger competition to the ocean transportation services of this country. Since 1958 the net position of the transportation account has reverted to its prewar pattern of a net payments balance.

From 1952 to 1962 freight receipts declined relative to merchandise exports from 5.9 percent to 3.2 percent. On the other hand, freight payments rose relative to merchandise imports from 3.9 percent in 1954, the first year after the Korean conflict, to 6.5 percent in 1962. The recent excess of freight debits over credits reflects the declining participation of U.S.-flag ves-

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sels in the transportation of United States foreign trade. In recent years about one-fourth of the value of U.S. ocean-borne foreign trade has been carried by the U.S. merchant marine.

Port expenditures a balancing factor

A large imbalance in the transportation account is unlikely because of the countervailing effect of port expenditures resulting when either U.S. or foreign operators enlarge their carriage of U.S. commerce relative to the other. Port expenditures, which include wage payment to crew, bunkering, port use and piloting fees, advertising, and in some cases loading and unloading charges, constitute a large part of the total cost of moving goods in international trade. As U.S. payments to foreign carriers for the transport of U.S. imports and passengers increase, the port costs of these carriers in the United States must also rise since these charges are directly related to the increased activity of the carriers in the United States. Conversely, when transportation receipts from additional freight earnings on U.S. carriers increase, U.S. payments to foreign countries on port expenditures also rise. Thus, port expenditures constitute a

partially balancing element, minimizing large fluctuations on the credit or on the debit side of the transportation account of the balance of payments.

Because revenues from the carriage of goods are offset to a large extent by port charges and other related costs, extreme shifts in the carriage of U.S. trade are comparatively small in their net effect if it is assumed other factors do not change.

In table 2, the 1962 actual ocean freight balance of payments position is presented and compared with the extreme cases that all U.S. exports and imports were carried by American-flag vessel, or that only foreign-flag vessels were used in the transportation of U.S. foreign trade. These extremes assume that sufficient vessels are available and that freight rates do not change, and are presented solely to illustrate how shifts in the carriage of freight between U.S. and foreign vessels tend to affect our transportation account.

If U.S. vessels carried all of this country's ocean-borne commerce, no debit from freight would result, but port expenditures would increase greatly as a result of the increased activity. If all U.S. ocean-borne imports and exports were carried aboard foreign

vessels, payments to the United States for port expenditures would offset some of the increased freight payments. This table indicates that the United States balance of payments position on ocean transportation could fluctuate between the limits of \$820 million excess of credits over debits if all freight were carried on U.S.-flag ships, to \$300 million excess of debits over credits if all cargo were carried by foreign-flag ships.

When the assumption is made that the carriage of all trade is shifted to U.S. vessels, freight receipts rise sharply because of the relatively higher freight charges by U.S. operators on exports, which are largely liner tonnage with relatively high rates. On the other hand, when it is assumed that all our imports are carried on foreign vessels, our freight payments on imports rise only moderately. This is partly because a large proportion of the tonnage is already under foreign flag, partly because of lower rates, and in part because our imports consist to a greater extent of commodities with lower transport costs than our exports. In addition, port expenditures abroad are generally less expensive than in the United States, so that a relatively smaller part of the gain in freight revenue, when all trade is carried in U.S. vessels, is offset by a rise in expenditures in foreign ports.

In citing these cases, of course, many other considerations not directly related to the balance of payments are excluded and even for the balance of payments accounts there would be major indirect effects. The latter would include changes in the cost of delivering U.S. exports that would affect our competitive position, and offsets to our expenditures that result when foreign recipients of dollars spend them in the United States.

Freight receipts and payments

In 1962 earnings from all kinds of freight on U.S. exports amounted to \$701 million, while freight payments to foreign transportation concerns for imports into the U.S. amounted to \$877 million. Table 1 presents credits and debits resulting from freight movements as well as other major components of the transportation account.

Table 1.—U.S. Balance of Payments on Transportation Account, by Major Items, 1952-1962

	[Millions of dollars]										
	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
Credits:											
Freight.....	700	542	517	688	700	941	634	622	676	690	701
Ocean.....	725	471	445	554	670	845	539	580	504	585	588
Air.....	24	28	20	34	30	41	44	19	55	84	60
Other.....	41	43	40	40	64	32	31	74	57	87	57
Passenger fares.....	112	107	111	121	120	145	148	165	146	151	142
Ocean.....	24	21	23	23	26	24	24	20	20	18	14
Air.....	33	30	35	35	101	124	123	143	126	133	128
Port expenditures.....	190	305	312	308	363	345	291	322	334	312	374
Ocean.....	462	405	468	548	591	708	692	696	651	635	678
Great Lakes.....	4	4	3	5	5	5	4	6	6	7	8
Air.....	22	30	40	59	64	77	95	118	147	172	180
Other.....	38	44	31	40	62	60	37	37	31	29	22
Total.....	1,468	1,186	1,171	1,446	1,517	1,967	1,438	1,610	1,687	1,690	1,749
Debits:											
Freight.....	400	450	500	545	637	708	761	861	903	846	877
Ocean.....	428	423	500	480	607	717	743	812	910	791	817
Air.....	2	4	5	7	9	12	13	18	22	32	30
Other.....	29	32	20	28	31	31	25	30	31	35	34
Passenger fares.....	175	181	195	205	241	264	323	388	513	516	585
Ocean.....	139	132	130	138	184	133	106	183	222	207	201
Air.....	42	48	36	68	87	131	157	205	301	300	382
Port expenditures.....	302	350	264	284	310	355	341	337	370	403	420
Ocean.....	160	142	141	153	168	204	170	165	107	221	311
Great Lakes and rail.....	24	23	21	23	29	26	20	21	22	21	31
Air.....	37	61	62	308	119	127	151	101	181	150	147
Other.....	178	185	180	300	220	100	262	179	142	183	194
Total.....	1,115	1,281	1,226	1,244	1,408	1,560	1,630	1,760	1,983	1,949	2,053
Net.....	+353	+117	+145	+202	+109	+358	+2	-149	-296	-259	-304

Ocean freight is by far the most important item in freight receipts and payments and constitutes 84 percent of total freight receipts and almost 34 percent of all earnings of the transportation account in 1962. It is an important item also because of its large changes, which depend on such variables as changes in the tonnage and commodity composition of international trade, the degree of participation of U.S. vessels in world transportation services, and the level of freight rates.

Credits on ocean freight transportation result from the transportation of U.S. exports abroad aboard U.S. vessels and their carriage of goods between foreign ports. These earnings declined during the Korean conflict from a high of \$880 million in 1951 to \$471 million in 1953. In large part this decline was attributable to the transfer of privately operated vessels to the Maritime Administration and to the fact that much of the remaining U.S. privately operated fleet was engaged in the carriage of supplies to the United Nations forces in Korea.

With the end of hostilities in Korea, ocean freight receipts increased again gradually and reached a peak in 1957, when the closing of the Suez Canal, as well as cyclical peaks both in the U.S. and in the major industrial countries abroad, intensified the demand for shipping facilities. In the following year U.S. ocean freight receipts fell sharply to \$559 million primarily as a result of a large decrease in freight rates, which can be attributed to the rise of vessel-carrying capacity relative to the total volume of cargoes in international trade. In the remaining years through 1962 these receipts have risen slowly.

Earnings on ocean freight totaled \$588 million in 1962, little changed from \$585 million in 1961. While the amount of export tonnage carried by U.S.-flag vessels declined, earnings per ton carried increased. The per ton rise in ocean freight earnings occurred during the third and fourth quarters of 1962, when the shipping industry was facing threats of a waterfront labor strike. As a consequence the demand for shipping to overseas destinations

increased temporarily relative to the currently available space and the shipping concerns tended to accommodate commodities with higher freight rates.

Ocean freight payments for United States imports carried by foreign carriers reached a peak in 1960 of \$910 million, but declined in 1961 as a result of a decrease in the quantity of imports, and in 1962 remained below the 1960 level at \$878 million. The reduction in payments resulted largely from the decrease in freight rates of bulk commodities.

Included in total freight credits and debits are other transactions, such as Great Lakes shipping, rail traffic and freight car rental between the United States and Canada and Mexico and pipeline transportation. The net balance of all these transactions has fluctuated over the years between small net receipts and payments, and amounted to \$24 million of net receipts in 1962.

Port expenditures

Since 1958 the largest source of dollar receipts in the transportation account of the balance of payments has been port expenditures by foreign sea and air carriers. In 1962 foreign-flag vessels spent for these purposes in the United States an estimated \$684 million. Port expenditures in the United States by foreign air carriers for fuel,

loading fees, maintenance, advertising and salaries amounted to over \$190 million for the same year.

Receipts from port expenditures of foreign ocean carriers rose markedly from 1952 to 1962. Higher prices for fuel and other services partly explain this trend, but of greater importance is the increased participation of foreign carriers in the international trade of the United States. These costs are incurred by foreign vessels in connection with shipments to and from the United States and should be compared with the freight revenue earned by foreign ships from U.S. exports as well as imports. Because the port expense is by far the major element of total freight cost, port expenditure receipts can be nearly as high as all United States payments to foreign steamship operators for the transportation of U.S. ocean-borne imports.

During the 11 years span from 1952 to 1962 the ratio of earnings from port expenditures to payments for ocean freight declined somewhat, but in the latter year still remained very high. This decline can be explained by changes in the commodity composition of imports and exports from liner to tramp and tanker cargoes; loading and unloading costs of cargo carried on these vessels are much less than those of cargo typically carried on liners.

Disbursements in foreign ports by United States vessels and by vessels chartered by American operators for the transportation of freight between foreign ports amounted to \$241 million in 1962.

Passenger fare payments rise

Passenger fares are the second most important item on the payments side of the transportation account, and third on the credit side. During the last eleven years passenger fare payments have more than tripled, increasing from \$175 million in 1952 to about \$563 million in 1962, while receipts from the carriage of foreign residents by U.S. carriers rose by only 27 percent, from \$112 million to \$142 million. The substantial growth of passenger fare payments is explained primarily by the large expansion of

Table 2.—U.S. balance of payments on ocean transportation of commodities for 1962, compared with two alternative extreme assumptions

[Millions of dollars]

	Actual 1962		If all imports and exports were carried on U.S.-flag vessels		If all imports and exports were carried on foreign-flag vessels	
	Credits	Debits	Credits	Debits	Credits	Debits
Ocean freight revenue on U.S. foreign trade	405	817	1,630			1,000
Freight revenue between foreign countries	183					
Port expenditures	679	241		710	700	
Charter paid	10	105				
Total	1,277	1,234	1,630	710	700	1,000
Total net	+54		+220			-300

international travel of United States residents.

About \$200 million of 1962 passenger fare payments was earned by foreign passenger vessels and the remaining \$362 million by foreign air carriers. On the receipt side, United States air carriers earned approximately \$42 million from the transportation of passengers between foreign countries in addition to the \$86 million earned from foreign residents for direct travel to and from the United States. American passenger vessels received over \$14 million from the transportation of foreign residents to and from the United States.

Passenger fare payments to foreign air carriers by U.S. residents exceeded payments to foreign sea carriers for the first time in 1959, and have continued to do so since.

The expansion of international travel by U.S. residents is not the only factor affecting the growth of fare payments; the increased competition of foreign air carriers is another. Foreign airlines of other nations are the major competitors in the American market for international air travel. The major part of the competition comes from the airlines of other industrialized countries, but many of the less-developed countries also have international airlines under their own flags.

A major recent development has been the rapid growth of air freight. U.S. air carriers earned \$56 million in 1962 against \$24 million in 1952 on the transportation of U.S. exports. Air freight payments to foreign carriers on U.S. imports amounted to \$26 million in 1962 and \$3 million in 1952.

Merchandise exports and imports carried by domestic and foreign air carriers were valued approximately at \$840 million and \$662 million respectively in 1962. Exports moved by air were about 11 percent of all imports of manufactured goods. The average value per ton of exported air freight was approximately \$11,000 as compared with an estimated \$142 per ton value of ocean-borne exports in 1962. Freight transported by air received a strong boost during the strike in the ocean shipping industry at the end of 1962.

Table 3.—Value and Weight of Ocean-borne U.S. Exports and Imports, by Type of Service and by U.S. or Foreign Flag Carrier, 1952-1961

(Value in million dollars, tons in million long tons)

	Liner			Tramp			Tanker		
	Total	U.S.-flag	Foreign-flag	Total	U.S.-flag	Foreign-flag	Total	U.S.-flag	Foreign-flag
Exports									
1951 value.....	10,006	3,562	7,164	2,118	281	1,836	604	124	780
Tons.....	31.5	8.4	23.1	50.3	3.1	47.2	14.0	2.2	11.8
1960 value.....	10,584	3,857	7,607	1,855	214	1,641	602	175	727
Tons.....	32.2	9.1	23.1	47.0	3.3	43.7	14.8	2.7	12.1
1959 value.....	8,580	2,803	5,837	1,707	192	1,515	542	87	455
Tons.....	26.1	7.5	18.6	45.1	3.0	42.1	10.2	1.3	8.9
1962 value.....	8,734	3,170	5,434	1,780	198	1,582	573	98	277
Tons.....	27.5	8.0	19.5	53.0	3.2	50.4	8.3	1.8	6.7
Imports									
1951 value.....	7,069	2,313	5,420	1,567	203	1,404	1,700	70	1,630
Tons.....	17.8	4.3	13.4	32.3	4.6	27.7	102.8	3.5	99.3
1960 value.....	7,970	2,382	5,688	1,727	100	1,627	1,723	57	1,666
Tons.....	18.6	5.4	13.2	39.0	5.0	34.0	103.2	5.3	97.9
1959 value.....	7,018	2,472	5,470	1,608	114	1,794	1,745	83	1,662
Tons.....	18.0	6.7	11.3	31.7	5.1	26.6	101.8	4.6	97.2
1962 value.....	11,048	2,814	4,284	1,606	100	1,487	1,788	147	1,641
Tons.....	10.2	6.0	10.6	51.5	5.6	45.9	80.4	8.2	72.2

Source: U.S. Department of Commerce, Maritime Administration.

Operating expenditures of foreign airlines in the United States—a port expenditure item—increased from \$32 million in 1952 to \$190 million in 1962. The ratio of these receipts to air passenger fare payments fluctuated from 50 to 75 percent during the same period. Payments for operating expenditures of American airlines abroad amounted to about \$167 million in 1962, which is an increase of about 90 percent over 1952. In contrast to port costs of ocean carriers the net balance on air port expenditures is adverse to the United States. The substantial increase of these receipts and payments can be attributed to the large expansion of air travel and air freight during the past years.

Value of ocean-borne trade

In 1961 ocean-borne exports in terms of value amounted to \$13.7 billion, which is approximately 65 percent of all U.S. merchandise exports. The value of exports in 1961 transported on liner vessels was \$10.7 billion, while tramp vessels moved over \$2 billion and tankers about \$1 billion of the U.S. ocean-borne exports. American-flag vessels carried somewhat less than 30 percent of the value of ocean-borne exports.

The value of imports moved by ocean freighter in 1961 amounted to \$10.9 billion or about 73 percent of all our merchandise imports. Liner vessels carried \$7.7 billion while tramps carried

\$1.40 billion and tankers \$1.76 billion of the ocean-borne imports. U.S.-flag merchant vessels carried \$2.4 billion of imports in 1961 or 22 percent of the total import value; the participation of U.S.-flag vessels was only 7 percent of all ocean-borne import tonnage.

A comparison of weight and value carried by U.S.- and foreign-flag vessels is given in table 3, showing that the operations of U.S.-flag vessels are concentrated mainly in the transportation of high-value cargoes, which usually have high freight rates. Thus, although U.S.-flag vessels carried only 3.8 percent of the import and export tonnage transported by ocean vessels, they earned an estimated 23 percent of all freight revenue generated by the ocean-borne United States foreign trade.

Volume of ocean-borne trade

The volume carried by ships of all flags in the ocean-borne foreign trade of the United States increased from 166 million tons in 1952 to 209 million tons in 1962. Of this total U.S.-flag vessels carried 71 million tons in 1952 but only 24 million tons in 1962. Cargoes moving in liner service decreased from one-quarter of all tonnage carried in 1952 to one-sixth in 1961. As the demand for raw materials and petroleum imports rose and the exports of agricultural aid cargoes expanded, tramp and tanker services took an ever increasing share of the volume of foreign trade.

Export tonnage increased by almost 40 percent, from 72 million tons in 1952 to 101 million tons in 1962. During the Korean conflict exports declined in terms of quantity to 53 million tons in 1953. From 1954 export volume rose steadily to a record level of 129 million in 1957. After the Suez incident export tonnage declined in 1958 to 89 million and in 1959 to 83 million, but rose sharply in 1960 to 95 million and has continued upward more gradually since then.

The volume of imports rose more or less steadily, reaching 170 million tons in 1962 an increase of 92 percent from the 89 million in 1952.

Trends in U.S. Shipping Operations

The participation of U.S.-flag vessels in the export and import trade of the United States has declined primarily in the tramp and tanker service. In 1952 out of total oil imports of 45 million tons, U.S.-flag vessels carried 23 million or about 50 percent, while in 1961 they carried about 1½ million tons, or 1.4 percent of all U.S. oil imports of 101 million tons.

Although the quantity of exports and imports carried by tramp vessels increased, the U.S.-flag participation in absolute and relative terms declined. In 1952 out of 61 million tons of tramp imports and exports, U.S.-flag vessels carried 16 million but in 1962 carried only 7½ million out of 108 total million tons of imports and exports.

In 1952 U.S. flag liner vessels transported 45 percent of all liner export tonnage and about 90 percent of all liner imports. Since then the participation of the American steamship lines has steadily declined until, in 1962, U.S. liners carried only about 25 percent of liner-borne exports and imports. U.S.-liner participation in the transportation of exports would have possibly declined even more if it were not for the support provided to them by the 50-50 provision of Public Law 664.

The world merchant marine fleet increased from 87 million gross registered tons in 1952 to 132 million in 1962, an increase of 52 percent for the period. Moreover, as a result of specialization and the general streamlining of opera-

tions as well as of increased speeds, the increase in the efficiency of the world fleet is greater than would appear from the mere increase in its size. During the same period, however, the privately owned American fleet (excluding the Government-owned reserve fleet) remained about 10 million gross tons.

The total active U.S.-flag merchant fleet has shrunk from about 17 percent of the world's total in 1952 to only 7.6 percent in 1961. The failure of the U.S. merchant marine to keep up with the growth of world tonnage is attributed to a large variety of factors, of which the high cost of operating American flag vessels is probably the most important. Because of this last element some United States shipping interests prefer to operate sizable portions of their fleet under foreign flags. A large tonnage has been built in recent years by U.S. companies and their subsidiaries and has been placed under the flags of Panama, Honduras and Liberia. Moreover, sizable tonnage has also been transferred to foreign subsidiaries of parent U.S. concerns and has been registered mainly with the above-mentioned countries in order to take advantage of the lower operating costs under foreign flags.

A large part of these U.S.-owned vessels under foreign flag are operating in the foreign trade of the United States. In 1960 a total of 353 such U.S.-owned dry cargo and tanker vessels of 8.3 million dead weight tons were en-

gaged in the U.S. foreign trade. These vessels carried 63.7 million tons of imports and exports, which is about 23 percent of all U.S. foreign trade cargos. In fact, over 39 percent of all oil imports and 26 percent of all dry cargo imports were carried by vessels listed under U.S. effective control.

Recently a substantial portion of the U.S.-owned foreign flag vessels has been built abroad in countries which in the last years have added to their dollar and gold holdings. The construction of these vessels abroad increased U.S. private capital exports, or required the use of funds which otherwise might have been returned to the United States. Some part of the freight receipts earned by these foreign flag vessels under U.S. effective control is used to repay loans and interest in the United States.

Cost of shipping related to trade

Overseas transportation costs of U.S. ocean-borne exports in 1961 were on the average about 12 percent of the export value. Total freight paid to ocean carriers on exports was estimated at \$1,656 million, of which American operators received \$425 million while the remaining \$1,231 million was paid to foreign-flag vessels. Ocean transport cost on exports increased from around 10 percent of the value of exports in 1952 to a peak of about 16 percent in 1957, then declined gradually to its present level.

On U.S. imports average transport cost was estimated to be about 10 percent of the value of ocean-borne imports at dockside in foreign ports in 1961. Payments for transportation on U.S. imports were estimated to be about \$1,102 million of which U.S.-flag ships received \$311 million while the remaining \$791 million went to foreign ocean carriers. Average freight cost on U.S. imports fluctuated rather narrowly between 9 and 10 percent from 1952 to 1961.

The existence of transport costs means, of course, that our products are more expensive abroad than in the home market and that imported goods are more costly here than abroad. High transport cost is a deterrent to trade, both regional and international. A review of existing data suggest that

Table 4.—Ocean Transportation Costs Related to the Value of Ocean-borne Freight, 1953-61

	(Millions of dollars)			
	Value of ocean-borne freight	Estimated total ocean transportation cost	U.S. share of ocean transportation cost	Freight cost as percent of value
Exports:				
1951	13,065	1,810	428	12.1
1952	13,381	1,820	428	12.3
1953	10,829	1,310	328	12.1
1954	10,819	1,430	429	13.1
1955	13,462	2,149	530	16.0
1956	11,701	1,901	530	16.1
1957	10,769	1,310	417	13.3
1958	8,711	893	311	10.3
1959	8,103	891	311	10.2
Imports:				
1951	10,930	1,021	260	9.8
1952	11,429	1,167	247	10.1
1953	11,601	1,170	256	10.0
1954	10,032	1,050	290	10.8
1955	9,459	1,108	301	11.7
1956	9,559	1,060	303	10.6
1957	8,023	852	280	10.0
1958	7,847	771	261	9.8
1959	8,381	787	261	9.4

ocean freight rates on cargos outbound from the United States are generally higher than inbound rates for the same commodity and the same trade route. Freight rates on cargo liner service operating on major freight routes are established by conference agreements. The steamship conference, by setting freight rates on a particular trade route, acts as a price leader; other liner companies that are not parties to the conference agreement offer similar services at rates about 10 to 15 percent less than the established conference rates.

The underlying concept in the organization of a steamship conference has been the desire to regulate competition between the regular lines of different nations by establishing uniform freight rates for each commodity and uniform trade practices. Most major U.S. international freight routes are dominated by liner conferences in which American steamship companies are participating with companies of other nations. It seems that the practice of conferences has been to consider inbound freight into the United States as "back-haul" cargo, thus setting cheaper rates for commodities on United States bound ships that would otherwise be returning in ballast to pick up new cargo. The entire charge for overhead costs is assigned to the outbound journey for the United States; therefore, the "back-haul" rate can be kept lower because only direct cost must be met and any returns in excess of these is considered profit. This being the case, many commodities on several routes have higher rates outbound than the same goods inbound for U.S. ports.

Freight rates on U.S. exports tend to be greater than inbound rates on U.S. imports for the same commodities in our foreign trade with industrial countries. In addition, some rates from the United States to less industrialized areas are higher than freight rates from Western Europe and Japan for the same commodities over comparable freight routes. Provided that the composition of trade and the participation of U.S. flag are not affected, higher freight rates on U.S. exports increase our foreign exchange earnings in the transportation account, but would affect adversely our merchandise exports, the largest receipt item in the balance of payments.

GNP—(Cont. from p. 5)

Because the gains in durable goods output have been relatively greater than those in other areas of the economy, durable goods have accounted for 45 percent of the rise in GNP in the current expansion. (See text table.)

This ratio compares with percentages of less than 30 percent in the previous two recoveries, and reflects a resurgence in the share of hard goods output in total GNP.

Distribution of Increase in Real GNP by Major Type

	II 1959- III 1960	I 1958- II 1959	I 1953- II 1954
As a percent of total rise in real GNP, from trough to nine quarters after			
Gross National Product....	100.0	100.0	100.0
Durable goods output....	29.9	28.9	44.4
Nondurable goods output....	30.6	27.3	10.8
Construction.....	8.1	8.4	4.3
Services.....	31.4	35.4	32.5

At the bottom of the 1950-61 recession, durables output made up less than 17 percent of the total—the smallest share of the entire postwar period. By the second quarter of this year, the ratio was back up to 20 percent. While this share compares favorably with the peak quarterly rate reached in the economic advance of 1959-60, the relative share of durables production in total output is still below the 22-percent level that was common in prosperous quarters in the early and mid-1950's.

As the table and chart indicate, the rise in total production has been held down by a slower than average advance in the demand for nondurable goods. Relative to total consumer income and buying, purchases of nondurables have been declining very slowly during most of the postwar period.

Nine quarters after the trough, the cyclical expansion in output of both services and construction has been about the same as in the two previous expansions. While the growth in services of all types has continued about in line with the postwar upturn, there have been divergent tendencies exhibited by two of the major components of service expenditures. The rate of gain in personal buying of services has slowed somewhat in the last few years. On the other hand, Federal compensation of employees—by far the largest item of Government purchases of services—has risen by one-eighth since the most recent cyclical low, or much more than the last two times. State and local government payrolls—the third major component of service outlays in the National Accounts—have continued to expand on their postwar growth trend during recent years.

Total construction mainly tracing changes in spending for business and

housing structures, has typically shown a somewhat erratic cyclical behavior. In the recent expansion, there has been an especially strong and long lasting gain in residential building which has carried total construction higher in most quarters. A small decline in State and local government construction outlays—which make up one-tenth of the total—has held back the overall gain.

As the chart shows, during the 1958-60 upswing in business activity, construction reached a peak early and fell irregularly for a year by this stage of the cycle; this reflected mainly developments in the housing market. Nonetheless, in all three recoveries, total construction expenditures were roughly 7 percent higher in the ninth quarter of advance than at the cyclical low.

U.S. Investments—(Cont. from p. 22)

Though the net increase in U.S. private investments is of the same order of magnitude as the reduction in net liquid assets this does not, of course, imply a direct link. Many items or combinations of items in the balance of payments accounts would add up to similar or larger amounts over the years. As the U.S. debtor-creditor position has evolved, however, a few major relationships should be noted.

Certainly no country has had private foreign investments as large as those now held by U.S. nationals in other countries, or returning as much income (\$3.9 billion in 1962 not including \$1.2 billion of reinvested earnings). In this sense these investments are an element of considerable strength in the United States international position. On the other hand the fact that these foreign investments, especially direct and other investments going to industrialized countries, have grown so fast suggests that investment opportunities in the United States relative to those in comparable areas have not been attractive enough to absorb the funds available for investment.

The United States has maintained a steady and rising flow of capital to other countries over a long period during which its reserve position has been under pressure. A considerable volume of these outflows is to be expected, given the relatively abundant supply of capital here compared to domestic demand and the great variety of capital needs throughout the world. Nevertheless such flows are one of the factors which at least in the short run must be reckoned with as contributing to the balance of payments deficits.